

DWA/RSK/BMD/JB5/RKK/drs

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS

Water and Sewer Advisory Branch

RESOLUTION NO. W-4935

November 29, 2012

R E S O L U T I O N

(RES. W-4935), APPLE VALLEY RANCHOS WATER COMPANY (APPLE VALLEY). ORDER APPROVING APPLE VALLEY 'S REQUEST TO PERMIT PAYMENT OF WATER BILLS USING A CREDIT OR DEBIT CARD AND ALLOWING APPLE VALLEY 'S REQUEST TO PERMIT CUSTOMERS TO RECEIVE THEIR BILLING STATEMENTS ELECTRONICALLY.

By Advice Letter (AL) No. 171-W filed on May 17, 2012.

SUMMARY

This resolution approves Apple Valley's request to add an option to its tariffs that allows customers to pay their bills using a credit or debit card. Apple Valley's request is approved based on the following conditions: 1) Apple Valley charges a transaction fee not to exceed \$2.50 for each transaction; and 2) Apple Valley files a Tier 2 Advice Letter establishing a credit card memorandum account to record all costs associated with the credit card program previously authorized in rates that were or are incurred to support the credit and debit card payment options. The memorandum account shall also include any savings associated with offering the program. The net balance in the memorandum account shall be refunded to customers as part of Apple Valley's next general rate case.

This resolution approves Apple Valley's request to allow customers to receive water bills and most legally mandated notices electronically. Excluded from the credit/debit card payment option are customers who have made fraudulent payments in the last twelve months. Apple Valley is authorized to file a Supplement to Advice Letter No. 171-W to modify Tariff Rule 9 to permit these changes.

BACKGROUND

Apple Valley filed AL No. 171-W on May 17, 2012. In its filing, Apple Valley requests similar treatment as was afforded to Valencia Water Company in Resolution W-4908

dated April 19, 2012 pursuant to Industry Rule 8.2 (Request for Similar Treatment) of General Order 96-B. Apple Valley seeks Commission authorization to:

- (1) Continue accepting payment of water bills by credit card pending disposition of this advice letter.
- (2) Amend Tariff Rule 9, Rendering and Payment of Bills to:
 - (a) allow customers to pay their bills using a credit or debit card subject to a transaction fee of \$2.50 per transaction, charged by a third party vendor;
 - (b) exclude from this service those customers who have made fraudulent payments in the last twelve months; and
 - (c) permit customers to receive bills and most legally mandated notices electronically.

NOTICE AND PROTEST

Apple Valley served AL No. 171-W pursuant to the requirements of General Order (GO) 96-B, Rules 4.3 and 7.2, on its GO 96-B Service List. Apple Valley noticed its customers of AL No. 171-W through a bill insert pursuant to requirements of GO 96-B General Rule 4.2 and Water Industry Rule 3.1.

No protests to AL No. 171-W were received by the Division of Water and Audits (DWA).

DISCUSSION

Apple Valley has been offering its customers an option to pay bills by credit or debit card continuously since January 2010. To obtain this service, customers either log on to Apple Valley's website, or through its automated Interactive Voice Response telephone service and are directed to a third party vendor who accepts the credit or debit card payments, charges and collects a transaction fee, interfaces with the credit card company, and pays Apple Valley the amount of the customer's bill. Only customers who use this service are charged the transaction fee by the third party vendor. Apple Valley does not receive any portion of the transaction fee revenue from the third party vendor.

1. Apple Valley's credit/debit card payment option

Apple Valley states that it became aware that it needed to obtain Commission authorization prior to offering a credit/debit card payment option to its customers pursuant to Public Utilities Code § 755 after it received a copy of Draft Resolution W-4908 in February 2012 authorizing credit and debit card services for Valencia Water Company. Apple Valley continues to offer these options and has requested that the

Commission allow it to continue offering the option pending resolution of AL No. 171-W because discontinuation of this service would be an inconvenience to customers who have been using this service.

Compliance with Public Utilities Code § 755

Public Utilities Code § 755 permits water utilities to offer a credit or debit card bill payment option if approved by the Commission. Public Utilities Code § 755 requires that only those customers choosing to use the credit or debit card payment option shall incur the additional charges associated with providing this service, unless and until the Commission determines that the credit or debit card payment option results in savings to ratepayers that exceed the net costs of accepting payment by those cards. (Public Utilities Code § 755(a) (2).)¹ The Commission is required to determine the reasonableness of transaction costs charged to customers that choose to pay their water bills by credit or debit card pursuant to Public Utilities Code § 755(c). If the Commission determines that the savings to the utility corporation exceed the costs to the company, the net savings shall be passed on to the utility corporation's customers. (Public Utilities Code § 755(c) (3).)

Apple Valley believes that its request complies with Public Utilities Code § 755 (a)(2) because only customers that choose to use the credit and debit card payment services will incur the additional costs associated in providing these options, and no portion of these expenses is shifted to customers that do not pay their bills using a credit or debit card.

Apple Valley states that the program is not being offered as a cost savings measure, will not improve the company's profitability, and is being offered as a service to its customers who expect and frequently request this service. Also, savings from its proposed credit and debit card payment program do not exceed the cost of accepting credit cards.

¹ Public Utilities Code § 755 (a)(2) states:

"Only the customers that choose to use the [credit or debit card] payment options incur the additional charge and that no portion of the expense is shifted to customers that do not choose to pay a bill by credit card or debit card, unless and until the commission determines that the savings to ratepayers exceeds the net cost of accepting those cards."

Public Utilities Code § 2107 lists fines that can be imposed on a public utility that violates a Commission order or the Public Utilities Code.² Because Apple Valley does not derive any financial benefits from offering these payment options and the costs involved in doing so are very small, we will not impose a penalty for Apple Valley's failure to comply with Public Utilities Code § 755(b) in this instance. However, we remind Apple Valley that it needs to be cognizant of requirements for Commission authorization mandated in the Public Utilities Code.

2. Establishment of credit card memorandum account

There were 1,328 and 4,319 credit card payments processed in 2010 and 2011, respectively. We estimate that Apple Valley will incur ongoing incremental net costs of \$27 per month for time spent by offering the credit/debit card payment option similar to those incurred by Park Water Company, Apple Valley's parent company.³ Apple Valley indicates that it did not incur any legal costs for offering the service. We estimate that Apple Valley's total estimated cost for the program from 2010 through 2012 is \$972.⁴

We conclude that recovery of costs with respect to a credit and debit card program from the general body of non-participating customers should not be permitted given that Apple Valley has not shown that the credit and debit card option offers any net savings at this time. In conjunction with our approval of Apple Valley's request to continue offering customers a credit and debit card payment option, we authorize the

² Public Utilities Code Section 2107 states :

"Any public utility that violates or fails to comply with any provisions of the constitution of this state or of this part, or that fails or neglects to comply with any part or provision of any order, decision, decree, rule, direction, demand, or requirement of the Commission, in a case in which a penalty has not otherwise been provided, is subject to a penalty of not less than five hundred dollars (\$500), nor more than fifty thousand dollars (\$50,000) for each offense."

³ Assuming same costs are incurred by Apple Valley as are reported by Park, its parent company in Advice Letter No. 131. Based on Park Water Company's Advice Letter No. 131, it is assumed that Apple Valley's costs will be \$77 per month for time spent by customer service representatives on the telephone assisting customers for the credit card program. These costs are offset by savings of \$50 per month from an estimated 3 reduced shutoffs associated with timely payment of bills using credit cards.

⁴ Net costs from 1/1/2010 through 12/31/2012 @ \$27/month: \$27/month *36 months = \$972
Total amount before interest: \$972

establishment of a memorandum account and require its incorporation into Apple Valley's tariff by filing a Tier 2 Advice Letter. In this memorandum account, Apple Valley shall record all costs previously authorized in rates that are being used to support the credit and debit card payment options. This would include all ongoing maintenance, operation and capital costs needed to support this payment option. In addition, all cost of noticing the program shall be accounted for in the memorandum account until Apple Valley files its next general rate case. Apple Valley shall also record in this memorandum account any savings arising from the reduced number of shutoffs associated with timely payment of bills using debit or credit cards. The net balance in the memorandum account shall be refunded to customers as part of Apple Valley's next general rate case. Further, in its next general rate case filing, Apple Valley shall remove all costs associated with the debit and credit card payment program that are included in base rates. This will ensure that Apple Valley's credit/debit card payment option is compliant with Public Utilities Code § 755.

3. Reasonableness of transaction fee

Apple Valley states that it is using the same third party vendor, Paymentus, as its parent company, Park Water Company, to offer the credit and debit card services. The selection of the vendor was based on the vendor's experience in offering such services, flexibility with fees, settlement time, and consolidation of deposits. Park Water Company negotiated a transaction fee of \$2.50 per transaction with the third party vendor for providing the credit/debit card service. No competitive bidding was used for vendor selection.

We find that a transaction fee of \$2.50 per transaction for this optional service is a reasonable charge. In view of the fact that the customer base using this optional service is small, Apple Valley is unable to obtain volume discounts that larger utilities are able to receive for offering this service. Furthermore, the transaction fee of \$2.50 per transaction is the same as that approved for Valencia Water Company in Resolution W-4908, dated April 19, 2012. Apple Valley's request is reasonable and Tariff Rule 9 should be modified accordingly. Further, Apple Valley is reminded that before any increase in the transaction fee can be instituted it must seek authorization from the Commission.

4. Excluding certain customers from credit card/debit card services

Apple Valley seeks to exclude from the credit/debit card program customers who have made fraudulent payments in the past twelve months.

We believe that customers who have made fraudulent payments over the past twelve months should be excluded from being offered the credit/debit card payment option because they pose an extra level of collection risk. We agree with DWA staff's recommendation that Apple Valley's request is reasonable and Tariff Rule 9 should be

modified to not extend the credit/debit card payment option to customers who have made fraudulent payments in the past twelve months.

5. Availability of electronic statements

Apple Valley seeks to provide customers the option to receive regular bills for service electronically, and to receive most legally mandated notices electronically at the same time the customer is provided the electronic bill.⁵

Customers should be given the option, at no extra cost, to receive electronically regular bills for service and other legally mandated notices and to no longer receive these items in paper format. We agree with DWA staff's recommendation that Apple Valley's request is reasonable and authorize modification of Tariff Rule 9 to reflect this change.

6. Extending returned check fees for other financial institutions

Apple Valley proposes to amend its tariffs to extend the returned check charge to all forms of payment, including payment made by a credit or debit card, that are subsequently dishonored by any financial institution or payment processor.

The language in the tariffs should be amended to impose a charge on all forms of payments that may be returned by financial institutions or a payment processor. This will permit Apple Valley to charge customers who make the dishonored payments, rather than requiring the general body of ratepayers to absorb these costs as part of authorized rates. We agree with DWA staff's recommendation that Apple Valley's request is reasonable and Tariff Rule 9 should be modified to extend a dishonored check-payment charge to cover all transactions where a financial institution or payment processor rejects a payment.

COMMENTS

Public Utilities Code § 311(g) (1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. This is an uncontested matter that grants the relief requested. Pursuant to Public Utilities Code § 311(g) (2), this Resolution was not circulated for public comment.

⁵ Apple Valley will continue to provide written notices of termination of service in accordance with Rule No. 8.

FINDINGS AND CONCLUSIONS

1. Apple Valley Ranchos Water Company (Apple Valley) has been offering its customers the option to pay their water bills by credit or debit card since 2010.
2. Public Utilities Code § 755 requires Commission approval prior to offering a credit/debit card bill payment option to customers of a water corporation.
3. Apple Valley continued offering the credit/debit card bill payment option even after learning that Commission approval was required prior to offering credit/debit card services.
4. Public Utilities Code § 2107 lists fines that can be imposed on a public utility that violates a Commission order or requirement of the Public Utilities Code.
5. Apple Valley did not profit from offering the option for bill payment by credit/debit card and the costs Apple Valley incurred for offering this service were small. It is reasonable to not impose a penalty on Apple Valley for offering a credit/debit card payment option without Commission authorization in this instance.
6. Apple Valley needs to be cognizant of requirements for Commission authorization mandated in the Public Utilities Code.
7. Apple Valley filed AL No. 171-W requesting authority to: (a) continue to offer its water customers a credit/debit card bill payment option; (b) allow customers to receive electronically their bills and most legal notices, and (c) not extend the credit/debit card payment option to customers who have made fraudulent payments within the last twelve months.
8. All revenues arising from transaction fees paid for making payments using a credit or debit card flow directly to the third party vendor.
9. Customers who do not use the credit or debit card bill payment option service are not charged any costs related to providing this service.
10. Public Utilities Code § 755 permits water utilities to offer a credit or debit card bill payment option if approved by the Commission.
11. Public Utilities Code § 755 requires that only those customers choosing to use the credit or debit card bill payment option incur the additional charges associated with providing this service, unless the Commission determines that the credit or debit card bill payment option results in savings to ratepayers that exceed the net costs of accepting payment by those cards.
12. Public Utilities Code § 755 requires the Commission to determine the reasonableness of transaction costs charged to customers who choose to pay their water bills using the credit or debit card bill payment option pursuant to this section.

13. Apple Valley proposes a transaction fee of \$2.50 per transaction to be collected by Apple Valley's third party vendor from customers who opt to pay their water bill using a credit or debit card.
14. It is reasonable for customers to pay a transaction fee of \$2.50 for using a credit or debit card to pay water bills.
15. Public Utilities Code § 755 requires the Commission to determine how any associated costs or potential savings from credit or debit card bill payment are passed on to the customers.
16. Apple Valley was not charged by its vendor for enhancements required to offer credit/debit card service.
17. A new credit card memorandum account should be established. Apple Valley should file a Tier 2 Advice Letter to incorporate the credit card memorandum account into its tariff.
18. Apple Valley should record all costs previously authorized in rates that are being used to support the credit and debit card payment options including all ongoing maintenance, operation and capital costs pertaining to the credit/debit card option in a credit card memorandum account. Apple Valley should also record in this memorandum account any savings arising from the reduced number of shutoffs associated with timely payment of bills using debit or credit cards. The net balance in the memorandum account should be refunded to customers as part of Apple Valley's next general rate case.
19. Apple Valley should remove all costs associated with the debit and credit card payment program that are included in base rates in its next general rate case.
20. It is reasonable for Apple Valley to record the net costs for providing credit/debit card bill payment services starting with the effective date of its credit/debit card program. The memorandum account is the appropriate mechanism for recording all costs and savings associated with providing credit/debit card bill payment services.
21. Apple Valley's cost/savings analysis, based on Park Water Company's experiences, indicates that Apple Valley incurred \$972 for the credit card program from 2010 through 2012. That amount plus interest should be recorded in the credit card memorandum account.
22. It is reasonable to expect additional costs to collect from customers who have made fraudulent payments in the past.
23. It is reasonable to exclude customers who have made fraudulent payments in the past twelve months from participating in credit/debit card bill payment option.
24. Financial institutions may reject payments made electronically.

25. It is reasonable to modify the Tariff Rule No. 9 to establish a credit/debit card bill payment program consistent with Appendix A attached to this Resolution and to extend a dishonored payment charge to cover all transactions where a financial institution or a payment processor rejects a payment.
26. It is reasonable to permit customers to receive, at no extra charge, billing statements and other legally mandated notices electronically. Apple Valley should file a supplement to Advice Letter No. 171-W modifying Tariff Rule No. 9 – Rendering and Payment of Bills, consistent with Appendix A attached to this Resolution.

THEREFORE IT IS ORDERED THAT:

1. Apple Valley Ranchos Water Company's Advice Letter No. 171-W is approved consistent with directions provided below. Tariff Rule No. 9 - Rendering and Payment of Bills shall be modified consistent with the authorization in this Resolution to: 1) allow customers the option to receive electronically at no extra charge billing statements and legal and mandated notices; 2) offer an optional credit/debit card bill payment option to all customers; and 3) extend the dishonored check payment charge to all dishonored checks and electronic payments consistent with the language shown in Appendix A of this Resolution, and to concurrently cancel the presently effective tariff sheets. Apple Valley Ranchos Water Company shall file a supplement to Advice Letter No. 171-W within five days of the effective date of this Resolution that includes tariff language consistent with Appendix A of this Resolution.
2. Apple Valley Ranchos Water Company's proposal to continue to allow customers to pay their water bills by credit or debit card on an optional basis is approved. The charge for offering such a service shall not exceed \$2.50 per transaction to be paid by those customers who use this service.
3. Apple Valley Ranchos Water Company is authorized to establish a credit card memorandum account.
4. Within thirty days of this Resolution, Apple Valley Ranchos Water Company is ordered to file a Tier 2 advice letter, to incorporate a credit card memorandum account authorized by this Resolution into its tariff and to record all costs and savings associated with providing credit/debit card payment services. The balance in the memorandum account shall be refunded to the general body of ratepayers as part of Apple Valley Ranchos Water Company's next general rate case.
5. Apple Valley Ranchos Water Company, as part of its next general rate case, shall remove all ongoing costs associated with providing credit/debit card payment options from its base rates consistent with Public Utilities Code Section 755.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on November 29, 2012; the following Commissioners voting favorably thereon:

APPENDIX A
Sheet 1

Rule No. 9

RENDERING AND PAYMENT OF BILLS

A. Rendering of Bills

Bills for service will be rendered each customer on a monthly or bi-monthly basis at the option of the utility, unless otherwise provided in the rate schedule.

At the customer's request, the utility may be requested to provide either paper or electronic bills for rendered service, but not both. (N)

The customer may elect to receive and view regular bills for service and other legal and mandated notices electronically and to no longer receive paper bills and legal and mandated notices. Customers requesting this option may be required to complete additional forms and agreements. Legal and mandated notices shall be included with the utility's electronic means of bill delivery; except however, all notices of termination of service shall be made in accordance with Rule No. 8. The customer may discontinue electronic billing upon 30 days prescribed notice. (N)

1. Metered Service (L)

a. Meters will be read at regular intervals for the preparations of periodic bills and as required for the preparation of opening bills, closing bills, and special bills.

b. The opening bill for metered service will not be less than the established monthly minimum of readiness-to-serve charge for the service. Any amount paid in excess of the prorated charges otherwise applicable to the opening period will be credited against the charge for the succeeding regular billing period, except that no such credit shall accrue if the total period of service is less than one month.

c. It may not have always been practicable to read meters at intervals which will result in a billing period of equal numbers of days.

(1) Should a monthly billing period contain less than 27 days or more than 33 days a pro rata correction in the amount of the bill will be made. (L)

(continued)

APPENDIX A
Sheet 2

Rule No. 9

RENDERING AND PAYMENT OF BILLS
(continued)

- (2) The charge for metered service for a bi-monthly period will be computed by doubling the monthly minimum or readiness-to-serve charge and the number of cubic feet to which each block rate is applicable on a monthly basis. (L)
 - (3) For billing periods other than monthly or bi-monthly, adjustments will be made proportionate to that for a monthly billing period.
 - d. Bills for metered service will show at least the reading of the meter at the end of the period for which the bill is rendered, the meter constant, if any, the number and kind of units, and date of the current meter reading.
 - e. Each meter on a customer's premises will be considered separately and the readings of two or more meters will not be combined except where a combination of meter readings is specifically provided for in the applicable rate schedule, or where the utility's operating convenience of necessity may require the use of more than one meter or a battery of meters. In the latter case, the monthly minimum or readiness-to-serve charges will be prorated from the monthly minimum or readiness-to-serve charges of the applicable rate schedule upon the basis of a meter size equivalent in diameter to the total combined discharge areas of such meters.
2. Flat Rate Service
- a. Bills for flat rate service are payable in advance.
 - b. The opening bill for flat rate service will be the established monthly charge for the service. Any amount paid in excess of the prorated charges otherwise applicable to the opening period will be credited against the charge for the succeeding regular billing period, except that no such credit shall accrue if the total period of service is less than one month.
 - c. For billing periods other than monthly, the charge for flat rate service will be computed by multiplying the monthly charge by the number of months in the billing period. (L)

(continued)

APPENDIX A
Sheet 3

Rule No. 9

RENDERING AND PAYMENT OF BILLS
(continued)

3. Proration of Bills (L)

a. The charges applicable to opening periods, closing bills, and bills rendered for periods corresponding to less than 27 days or more than 33 days for monthly billing periods will be computed as follows:

(1) Metered Service

The amount of the minimum charge (and the quantity allowed therefore) or the readiness-to-serve charge and the quantity in each of the several quantity rate blocks will be prorated on the basis of the ratio of the number of days in the period to the number of days in an average billing period. The measured quantity of usage will be applied to such prorated amounts and quantities.

(2) Flat Rate Service

The billing period charge will be prorated on the basis of the ratio of the number of days in the period to the number of days in an average billing period.

(3) Average Billing Period

The number of days in an average billing period is defined as 365 divided by the number of billing periods in a year. (It is 30.4 days for a monthly billing period.)

B. Payment of Bills

Bills for service are due and payable upon presentation and payment may be made at any commercial office of the utility or to any representative of the utility authorized to make collections. Collection of closing bills may be made at the time of presentation.

1. The utility may charge \$12.00 for any bad check or electronic fund transfer not honored by the customer's financial institution or a payment processor. (N)

(continued)

APPENDIX A
Sheet 4

Rule No. 9

RENDERING AND PAYMENT OF BILLS
(continued)

B. Payment of Bills (continued)

(N)

2. Credit/Debit Card Option

At the option of the customer a credit or debit card payment can be made through a third party vendor. A non-refundable transaction fee of \$2.50 per transaction shall apply. The transaction fee will be over and above the utility bill amount and may be charged to the customer by a third party vendor for this service and will not be on the utility billing statement. For customers with more than one account, a separate transaction fee is necessary for each account. This payment option is not available to customers who have made fraudulent payments within the last 12 months.

|
|
|
|
|
|
|
|
|
|
(N)

(End of APPENDIX A)